Business lending slows after election

Companies in 'wait-and-watch mode' as they keep keen eye on Trump's plans for tax cuts

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Stocks are near all-time highs. Job growth is booming. And companies are starting to invest in new equipment and structures again as the energy industry bubbles back to life.

But one indicator is flashing yellow: Businesses aren't borrowing much money.

The pullback in business loans since the presidential election comes amid growing uncertainty over President Trump's plans for tax cuts and restraints on immigration. And it's raising questions about whether the nascent rebound in business capital spending — a pillar of the president's mission to jump-start the economy — can be sustained.

Firms are "just going to play it safe" for now, says Stephen Caprio, U.S. credit strategist for UBS.

While Caprio says the pullback in borrowing stems mostly from weaker demand, he notes that some banks have tightened lending standards.

Yet some economists are downplaying the recent slowdown, saying it doesn't reflect more modest investment plans.

From November through March, loans to businesses from U.S. banks increased at an average annual rate of 1.1%, down from 8.1% in the first 10 months of 2016 and 9.5% from 2012 to 2016, according to the Federal Reserve and UBS.

On the surface, it appears more large businesses that need cash are turning to the corporate bond market, with total bond issues for non-financial companies up 52% this year compared to the same period in 2016, according to UBS. But excluding the refinancing of existing bonds, new investment-grade bonds are down 44% from the year-ago period after rising in the first quarter of 2016. (Riskier high-yield bonds have tumbled for a longer period due to regulatory and other concerns.) The drop in bond issues also reflects a cooling of merger activity since last year, Caprio says.

There are other signs of lackluster growth ahead. The share of small businesses planning capital investments over the next few months fell to 26% in February from a recent peak of 29% in December, according to the National Federation of Independent Business.

Although Trump has proposed slashing tax rates for large and small business to as low as 15% to 20% from as much as 39.6%, there are disagreements in Congress about how to make up for the cuts. For example, many lawmakers oppose a border adjustment tax on imports that could offset the lost revenue. And lawmakers' failure last week to repeal the Affordable Care Act makes sweeping tax cuts more challenging.

The uncertainty could dampen demand for loans that allow businesses to buy computers or factory equipment, or to put up new buildings.

"We're definitely starting to hear from clients: Will we get tax relief? When will we get it?" Caprio says.

Some hotel owners, for example, are holding off on upgrades or new construction because Trump's proposed travel ban has discouraged visits, even from unaffected countries and immigrants within the U.S., says Rohit Arora, CEO of Biz2Credit, which helps small businesses find lenders.

"In the last two, three months, they're in a wait-and-watch mode," he says. That's one reason loan applications on his firms' online network have fallen 3% in the first quarter after rising 10% last year.

And while interest rates remain historically low, the Fed raised its benchmark short-term rate by a quarter percentage point on March 15 for the second time in three months. That pushes up the cost of borrowing.